OFFICE OF THE

Auditor General of British Columbia

Strategic Direction and Funding Proposal for the fiscal year 2006/2007

November 2005

DOC
BC
A9
D:S72
2005
c.3

LEGISLATIVE LIBRARY
VICTORIA, B.C.
NOV 23 2005

Our Vision

Making a difference for the people of British Columbia by contributing to an accountable and well-performing provincial public sector

Our Mission

To serve the people of British Columbia and their elected representatives by providing independent assessments and advice that enhance accountability and performance across the provincial public sector

Our Values

As we pursue our goals, we are committed to:

Excellence

We strive to meet the highest standards of service, professionalism, integrity and independence.

We are committed to being efficient and effective in our operations, and to promoting creativity, innovation and responsible risk-taking in our work.

We seek to maintain a relationship of mutual respect and trust with those we serve, and willingly share our experience and expertise.

Our People

We value the unique contribution and talents each individual adds to our Office and community.

We strive to manage on the basis of fairness, equity, honesty, mutual respect, trust and personal dignity. As our success is dependent on our working together, we promote a spirit of cooperation and teamwork throughout our organization.

We are committed to the concept of personal and professional development and support quality-of-life endeavours

LEGISLATIVE LIBRARY OF BRITISH COLUMBIA
3 3298 00310 6730

106-01341/

OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 387-6803
Facsimile: 250 387-1230
Website: http://bcauditor.com

Mr. Blair Lekstrom
Chair, Select Standing Committee on Finance and Government Services
Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to provide the Select Standing Committee on Finance and Government Services my Strategic Direction and Funding Proposal for the fiscal year 2006/2007, as required by section 19(1) of the Auditor General Act.

I will also be transmitting this proposal to the Speaker for delivery to all members of the Legislative Assembly.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
November 2005

copy: Mr. Craig James
Clerk Assistant and Clerk of Committees

Table of Contents

Summary 1

Introduction 2

My Funding Request 3

The Importance of Oversight by the Legislative Assembly 4

The Role of the Office 5

Impact of the Office's Work 6

Challenges Confronting the Office 9

Work Plan for 2006/2007-2008/2009 12

Organizational Structure and Funding 16

Funding Request Details 20

The Benefits of Supporting a Strong Audit Office 21

Responding to Standing Committee Requests 22

Recommendations 23

Appendices

A: Our Goals and Objectives 27

B: Financial Statement Audit Coverage Plan 2006/07 through 2008/09: Recommendations to be Approved by the Select Standing Committee on Public Accounts . . . 28

Summary

The *Strategic Direction and Funding Proposal for the fiscal year 2006/2007* outlines the resources required to support the Office of the Auditor General's strategic direction and work plan.

Last year, the Select Standing Committee on Finance and Government Services recommended that the Office receive $7.67 million in voted appropriation for 2005/2006. This was a $600,000 increase over the voted appropriation in 2004/2005. No further increases were recommended for 2006/2007 or 2007/2008. While the $600,000 increase provided a budget lift, in fact the voted appropriation still sits at 1996 levels. Even if adjusted for inflation alone, that appropriation today would be $8.95 million in real dollars. Base staffing levels have also remained constant over the same 11-year period, at approximately 88 staff. Meanwhile, the expectations on the Office for supporting Members of the Legislative Assembly in their oversight role have continued to grow.

This funding proposal recommends increases to the Office's voted appropriation. The first increase of $1.3 million for 2006/2007 has two parts: $800,000 to sustain the capacity of the Office to deliver its base work plan; and $500,000 to enable a modest expansion of the plan. The additional increases proposed for 2007/2008 ($600,000) and 2008/2009 ($500,000) will continue to fund a progressively expanded work plan.

While recoveries for the Office have gradually increased over time, they will decline next year to $1.94 million (a $360,000 decrease from recoveries previously estimated). Recoveries are earned through fee-for-service engagements, primarily for financial statement audits of government-related organizations such as Crown agencies (for example, BC Transmission Corporation), school boards, universities, colleges and health authorities. The amount the Office recovers each year varies depending on the number and size of the cost-recovery engagements staff conduct. A significant portion of recoveries goes to private-sector auditing firms contracted to carry out work on behalf of our Office.

The Office provides the Legislative Assembly with a strong means for holding government to account for how it delivers almost $41 billion in programs and services to the people of British Columbia. No other organization in the province provides the same type of independent and objective assessments on the accountability and overall performance of government. The Office's mandate is broad and covers audits not only of the financial statements of the province, but also of government's wider performance reports and delivery of programs and services. The work of the Office has ranged from providing assessments on very specific financial transactions to providing much more general advice on how a ministry should be held responsible for its overall plans and priorities.

While the Office has had a major impact in many areas – for example, interface fires, diabetes management and the sustainability of wild salmon stocks in the province – it has not been able to examine many important aspects of government because of budget limitations. The resources requested in this funding proposal would allow the Office to achieve a relatively small but significant improvement in the way it supports the Legislative Assembly in its oversight role. The Legislative Assembly's holding government to account for how wisely it spends taxpayer dollars and how effectively it delivers programs and services is a demanding and crucial set of responsibilities that needs much greater support.

Introduction

British Columbia's Auditor General Act requires a committee of the Legislative Assembly to review the audit work and funding requirements of the province's Office of the Auditor General. In actuality, two committees are involved:

- The Select Standing Committee on Public Accounts (PAC) is generally responsible for reviewing the Office's audit work and approving my financial statement audit coverage plan. I will be presenting the plan for the upcoming three years to PAC in November 2005. Because the plan has implications for the funding needed to support the Office, I include here (in Appendix B) the recommendations I will be making to PAC.

- The Select Standing Committee on Finance and Government Services (FGS) is responsible for recommending to the Legislative Assembly an annual appropriation to fund the operations of the Office, and for approving the basis on which we charge fees. The annual appropriation is the Office's main source of funding, at 75%. The rest of our funding is generated from the fees we charge (on a cost-recovery or market basis, whichever is lower), when we perform financial statement audit work for government-related organizations such as Crown agencies, school boards, universities, colleges and health authorities.

Last year, the FGS Committee recommended to the Legislative Assembly that the Office's voted appropriation be increased by $600,000 in 2005/2006. It did not recommend any additional increases for 2006/2007 or 2007/2008. However, as it does every year as part of developing the province's overall budget, the FGS Committee is reviewing this decision to determine if any changes should be made.

To assist the FGS Committee in its review, I prepare this report – *Strategic Direction and Funding Proposal* – to help the Committee better understand the funding components necessary for the Office to carry out its mandate.

My Funding Request

For the upcoming year, 2006/2007, I am requesting a voted appropriation of $8.97 million, which is a $1.3 million increase over the current voted appropriation. The first part of this funding request increase, $800,000, is consistent with the funding proposal I put forward last year. This funding would allow the Office to sustain the capacity it needs to deliver its base work plan. I am also requesting $500,000 to enable a modest expansion of our work plan.

For 2007/2008 and 2008/2009, I am requesting additional funds of $600,000 and $500,000, respectively, to further strengthen our capacity and effectiveness.

In addition to the appropriation, we expect to recover $1.94 million in 2006/2007 based on our financial statement audit coverage plan. This figure is $360,000 less than previously estimated primarily because the Office is no longer directly auditing the British Columbia Investment Management Corporation.

After 11 years with a voted appropriation that has remained virtually unchanged, I believe it is time to begin to expand the capacity of the Office so that I can better serve all Members of the Legislative Assembly (Members) in their oversight role.

The Importance of Oversight by the Legislative Assembly

Members carry out an essential role in our system of governance by holding government to account for the economical, efficient and effective management of public money. The public expects this "holding to account" to be rigorous and objective. Thus, when Members are making multi-billion dollar decisions, they need to have accurate cost and performance information and independent assurance that such information is reliable. They also need to know that the government has the capacity to deliver the programs and services promised.

The British Columbia public sector spends almost $41 billion a year on a wide range of services, programs and initiatives. That alone highlights the importance of the oversight role of MLAs. As well, however, there are billions of dollars in revenues, assets and liabilities being managed by government and government related organizations. Many major change initiatives have also been underway over the last few years, the results of which are now coming to fruition. Some of these changes relate to significant new governance relationships, including: the integration of 52 health organizations into 6 much larger health authorities; the growing use of public-private partnerships for major construction such as the Sea-to-Sky Highway; and other alternative service delivery arrangements such as outsourcing the administrative delivery of PharmaCare and the Medical Services Plan. While change itself is not an issue, quality, sustainability, safety, ethical conduct, privacy and sound management of the results can be a concern. This is where oversight is critical.

At the same time as these changes have been taking place, public demand has increased for open and transparent government. Members and the public want to be informed about the short- and long-term financial health of the province. They are also concerned about whether public business is being conducted fairly and ethically and whether the operations of government are being carried out

effectively and efficiently. Among the key questions about government performance that the public and Members want answered are:

- Has government achieved its financial objectives and managed its financial affairs according to sound financial and management controls?
- Have government programs achieved their intended results and are taxpayers receiving good value for their money?
- Has government carried out its business in accordance with appropriate standards of conduct and in compliance with legislation and regulations governing activities of government organizations?
- Does government have the capacity in terms of staff and resources to effectively and efficiently deliver its programs and services?

A strong system of accountability with thorough, robust public performance reporting by government in answer to all these questions is critical if government is to be held to account through legislative oversight.

The Role of the Office

The Office serves the people of British Columbia and their elected representatives directly by providing independent, objective assessments and advice on the accountability and overall performance of government. These assessments cover the financial statements of the government reporting entity, as well as examinations related to government accountability and performance.

The recommendations that flow from our work highlight, for the public and for Members, opportunities for government to improve its management and accountability practices.

The Office's role is key to good public accountability and vital to the democratic process of responsible government. Endorsement and support from Members for our work signals that a strong system of accountability is in place. This, in turn, contributes to the public's trust and overall confidence in an open and accountable government.

Impact of the Office's Work

The Office of the Auditor General has a unique role in British Columbia. By being independent of the government and reporting directly to the Legislative Assembly, we provide a measure of assurance about government's operations that no one else does.

The work of the Office is accessible by the public and is also tabled in the Legislative Assembly in the form of public reports. These reports are automatically referred to PAC, which reviews them in a public forum. I attend these public meetings with my staff to present and answer questions about the contents of the reports. Government managers, often at the Deputy Minister level, also attend to describe what actions are being taken in response to the issues raised. This process provides the Legislative Assembly with an effective and transparent mechanism for holding government accountable.

Critical to this role is my staff's expertise in public sector accountability and performance. This expertise ranges from understanding how a specific financial transaction is structured to understanding how a government program should be managed effectively. The calibre of our work is borne out in the Office's many achievements over the years. Through our three lines of business, I believe we have made significant contributions to changing how government operates. Highlights of these changes are summarized below.

Financial Statement Auditing

The provincial government is now required by law to follow generally accepted accounting principles. The biggest step has been to include the complete financial results of all school districts, universities, colleges and health organizations in the Summary Financial Statements. British Columbia is now a leader in financial reporting across the country. This step took most of a decade to achieve, and required the concerted efforts of both government and the Office of the Auditor General. This year, for the first time, I was able to provide an unqualified opinion on government's Summary Financial Statements. Providing this type of objective assurance on whether government is fairly presenting its consolidated financial results and financial position is the single biggest piece of work done by the Office each year.

Performance Report Assessments and Assurance

In October 2003, PAC endorsed a set of specific performance reporting principles for government and its organizations to use.[1] These principles (the culmination of work done by the Office over the last 10 years) serve as a guide to help government determine what it should report to the public each year about its planned and actual performance. Every year, we report on the progress each ministry and Crown corporation has made in presenting information in its annual report according to these principles. In my last report, I concluded that there has been steady, albeit measured, progress, but also that considerable room still remains for improvement before the annual reports provide a complete picture of any government organization's performance.

We also provide assurance on the performance reports for the Workers' Compensation Board of British Columbia, the Public Guardian and Trustee of British Columbia, and the British Columbia Assessment Authority. Our work provides a window through which to view how well government organizations are managing their affairs overall, not just their financial position.

Nationally, the Office is also helping develop formal guidance on performance reporting for governments and government organizations.

Earlier in 2005, we completed our first assessment of the adequacy of a government value-for-money disclosure report made on a public-private partnership. We concluded that Partnership BC's report, *Achieving Value for Money: Abbotsford Regional Hospital Care Centre Project*, fairly describes the context, decisions, procurement processes and results expected of this project. The Office is currently examining value-for-money disclosure reports on the Sea-to-Sky Highway and the Richmond Airport–Vancouver Rapid Transit Line. I believe my involvement in these important reports has added rigour to the reporting process and resulted in more balanced and comprehensive public reporting.

Risk Audits

Risk audits provide assessments of how well government and its organizations are managing the key risks associated with delivering programs, services and initiatives. Risk audits are subject-matter specific and can be time sensitive. The risk audits we perform cover many types of examinations across different parts of the provincial public sector. This work is particularly important where significant

[1] Performance Reporting Principles for the British Columbia Public Sector

change and restructuring have occurred. I believe that our risk audits have led to a number of improvements in how programs, services and new initiatives are delivered.

Many significant accountability and performance issues have been addressed in our risk audit reports, including:

- How can accountability for over $7 billion in regional healthcare services be improved through performance agreements?
- With the cost of healthcare for people with diabetes estimated to be more than $750 million a year, what efforts are in place to prevent more people from developing diabetes?
- How well did the Ministry of Human Resources implement the disability benefits eligibility review?
- Given the potential financial liability and serious risks that contaminated sites pose to human health and the environment, what strategies are in place to manage and remediate the thousands of contaminated sites in British Columbia?
- What is government doing to ensure the sustainability of wild salmon in the province?
- Does the work environment provide British Columbia public service employees with the support they need to deliver government programs and services successfully?
- How well are government and the B.C. Lottery Corporation supervising casinos to ensure that error, criminal exploitation and employee dishonesty are minimized?
- Are the costs and revenues estimated for the 2010 Winter Olympic Games and Paralympic Winter Games reasonable?

These examples provide only a glimpse of the range and depth of subject areas covered in the risk audits carried out by the Office. There is a full spectrum of government services, programs and initiatives where risk audits can have a significant and specific impact.

I am encouraged that Members have endorsed all of my findings and recommendations thus far, across the Office's three lines of business. This endorsement has not come without intense review. At PAC meetings, significant debate often takes place and questions are raised about the issues contained in my reports. This kind of in-depth review and challenge bodes well for a strong legislative oversight role which not only holds government to account, but also holds me and

the Office to account for the findings and recommendations contained in our reports.

While I am proud of what we have accomplished, I recognize that many other areas of government would benefit from a similar level of scrutiny – for example, social services, energy, sustainability and aboriginal issues. I know that our work is covering only a small part of what government does.

Challenges Confronting the Office

We have identified five key challenges facing the work of the Office. These are summarized below, along with a short explanation about how we are responding to them.

Credibility

The first challenge is to ensure that the work of the Office is credible and adheres to strict new standards of audit performance. Accounting and auditing standards continue to undergo unprecedented public scrutiny and change as a result of the failures of several major global businesses (such as Enron) in recent years. The Canadian Institute of Chartered Accountants – the standard-setter for the auditing profession in Canada – has, over the last two years, issued a number of new standards that are significantly affecting the work of the Office. Our credibility rests on adherence to these standards.

Under these new standards, for example, an auditor must:

- develop a greater understanding of the audited entity and its operating environment, including its internal controls;
- carry out a more comprehensive assessment of the risks of the audit and the impact of those risks on the audit plan; and
- develop an increased understanding of the information technology environment and assess its effectiveness.

Added to these higher expectations of audit performance are also new quality control standards that provide more conclusive assurance that those expectations will be met. Meeting all of the new standards will require greater audit effort on our part, which will

inevitably require more time, even after our initiatives to improve audit efficiency. In the private sector, estimates of the additional costs to comply with the new standards range from 10 to 20%.

Independence

The second challenge is to ensure that our independence and objectivity remain intact. The value of what we do relates directly to the public's confidence that, when we undertake our audit work, we are free from the influence of others (notably the government organizations that are the subject of our audits). The objectivity of the Office is preserved by many checks and balances we have instituted to guide how we carry out our work. For example, we rotate the senior management staff on our audits every five years and ensure our policy for disclosure of conflict of interest is enforced. Not only is such independence and objectivity required by the standards of the auditing profession, but also they are fundamental to an Auditor General's role.

We monitor closely the state of our independence and objectivity to safeguard the value of the Office's audits. These steps are time-consuming to apply but absolutely necessary if we are to maintain the quality of the Office's work and continue to instill public confidence in our audit findings and recommendations.

Relevance

The third challenge is to ensure that our work is of the highest relevance to the public and MLAs.

Members, through the Budget Transparency and Accountability Act, require government and its organizations to set out clearly what they plan to achieve and, later, to report clearly on what they did achieve. This is a significant step in the process of open and transparent government. Recognizing that one aspect of robust information relevancy is reliability, Members have endorsed the principle that they must receive independent audit assurance on the reliability of reported information. The challenge for the Office is: to build on this endorsement by encouraging greater use and awareness of the value of performance reporting; to develop appropriate assurance methodologies; and to work with internal auditors and private sector auditors to build capacity for carrying out such assurance work.

Another aspect of relevance is to maintain as much risk audit coverage as possible across the many important areas of government. The breadth of public sector activities far exceeds the Office's capacity to undertake a risk audit of every significant area within government, even over many years. We often have to make very difficult choices about which programs, services or areas to audit. For example, a ministry such as the Ministry of Health spends over $11 billion per year on programs and services that directly affect the quality of life of every person in British Columbia. Yet, a ministry such as the Ministry of Environment spends a much smaller amount of $175 million but also affects all British Columbians through its programs and services. The challenge for us is to provide as much coverage as possible across government to keep the public and Members informed, within our financial constraints, while maintaining our high standards.

The financial statement audit coverage plan I have prepared for 2006/2007 provides for 24 direct audits to be undertaken by the Office next year. While we will have varying degrees of involvement, I will rely primarily on private-sector auditing firms to cover the remaining 128 organizations that make up the government reporting entity. Our work in this area is the minimum needed to enable me to sign off on the Summary Financial Statements for the province.

Capacity

The fourth, and currently perhaps most pressing, challenge is to maintain our technical capacity. Auditing is a knowledge-based business. The Office needs experienced staff who not only have skills in audit and accounting practice, but also have expertise in the subject-matter of our audits. Given the broad range of audits we undertake, it is very challenging for us to develop and maintain this technical capacity from year to year.

The last few years have been especially difficult. I continue to lose many valuable and highly experienced people who have worked with me to carry out complex projects and make difficult judgements. Staff turnover has now reached an annual rate of 20%. This is the result of a number of recent retirements, a very competitive market for audit professionals and reduced funding. It is becoming increasingly difficult to recruit the human resources we require, and I believe this will continue to challenge our ability to build and sustain staff capacity for the future.

Work Environment Support

The fifth and final major challenge is to ensure our key resources – our staff – have the tools and supports they need to pursue excellence in their work. Although the results of our latest work environment survey indicate fairly high employee engagement, we must proactively ensure we have a work environment that is well supported. The necessary tools and supports include strategic human resources, training and development, appropriate work space and up-to-date computer systems. With the recent high turnover we have been experiencing, we are having to step up our training program to ensure new staff have an up-to-date skill set as quickly as possible. Investing in these types of tools and supports has to be balanced with funding the resources we require for conducting our audit work. Finding the right balance is a constant challenge for us.

Work Plan for 2006/2007–2008/2009

We use three main decision screens to guide us in priority-setting and planning.

The first screen was deciding to carry out the Office's mandate through three lines of business, which are: attesting to the reliability of government financial statements; examining the adequacy of government's risk management; and assessing the quality of government performance information. Each type of audit work represented by the three areas is supported by a significant history of practice. All three areas, which have received strong support from the province's Members, contribute to the Office's mission and vision.

The second screen was deciding to focus primarily on four major government areas of responsibility, which are: education, finance, health, and natural resources. This focus helps us cover all areas strategically and as equally as possible over the years.

The third screen was deciding, based on an environmental scan, to gain an understanding of important issues that cut across many areas of government programs and services. The areas of focus for the next three years include:

- aboriginal issues
- alternative service delivery initiatives
- economic cost-drivers
- electronic information systems

- federal-provincial impacts
- human resource management issues
- sustainability issues

Financial Statement Audits

We will continue to devote about 50% of the Office's resources to auditing the government's Summary Financial Statements and undertaking other related financial statement audit and accountability projects.

More specifically, we will:

- Assess the reliability and fairness of the government's Summary Financial Statements, aiming to complete our examination within 90 days after the year end.

  We will directly, or work with private-sector auditing firms to, assess the reliability and fairness of the financial statements of a number of key public sector organizations included in the government reporting entity (such as Crown agencies, school boards, colleges, universities and health authorities). For the 2006/2007 Summary Financial Statements, we will directly audit 24 government organizations and oversee the audit of 128 government organizations.

  As noted above in "Challenges Confronting the Office" (in the discussion of "Relevance"), this is the minimum level of audit work that will allow me to fulfill my responsibilities as the overall auditor of the government's Summary Financial Statements.

- Continue to produce the annual *Monitoring the Government's Finances* report, which highlights key issues related to the province's finances, and the annual *Leading the Way – Adopting Best Practices in Government Financial Reporting*, which describes the extent to which the provincial public sector is adopting best practices in financial reporting.

- Report to the public and Members on the soundness of the financial statement audit system across the provincial public sector, and work with private-sector firms to ensure appropriate audit coverage of all provincial public-sector entities.

- Provide timely advice to government on the many accounting and accountability issues that arise as a result of restructuring, governance changes, and changes in the way government provides services.

- Examine the feasibility of assessing the government's quarterly financial reports to provide the public and Members with assurance on whether these reports are being fairly presented.

Performance Report Projects

We will devote about 10% the Office's resources to assessing and encouraging continued improvement in the quality of provincial public-sector performance reports.

We will continue to support results-oriented management practices and performance reporting by:

- encouraging adoption of results-oriented management practices (as presented, for example, in the report *Building Momentum: A Study about Managing for Results in British Columbia*);
- reporting annually on the quality of public performance reporting in British Columbia;
- attesting to value-for-money disclosure reports related to public-private partnerships;
- continuing to raise awareness of the value of good performance reporting; and
- ensuring that British Columbia's point of view is heard through contributions to the development of national performance reporting standards.

We will also encourage Members' use of performance information, and raise awareness of the value of assurance by:

- working with organizations such as the Workers' Compensation Board of British Columbia, the Public Guardian and Trustee of British Columbia, and the British Columbia Assessment Authority to provide assurance on their annual performance reports;
- working with other Auditors General across Canada to provide assurance on government health indicator reports;
- starting to focus on the accuracy of reported performance measures of high public interest and impact;
- continuing to work with government to develop an assurance program for British Columbia, and reporting to Members on our progress; and
- working with our colleagues in the legislative audit community on the methodology for providing assurance on performance information.

Risk Audits

We will devote approximately 40% of the Office's resources to auditing how government manages its key programs and services.

Each year, our assessments cover a range of topics. My resources are intended to be focused on the issues of greatest significance, interest and value to the public and MLAs. The audit topics must be relevant, the recommendations for improvement must be sound and practical, and the reports must be informative and timely.

In 2005/2006, I plan to have issued seven risk audit reports:

- *Audit of the Government's Corporate Accounting System: Part 1*
- *Keeping the Decks Clean: Managing Gaming Integrity Risks in Casinos*
- *Coastal Ferry Services in British Columbia*
- *Drinking Water Source Protection*
- *Managing PharmaCare*
- *Audit of the Government's Corporate Accounting System: Part 2*
- *Status Report on the 2010 Olympics*

In 2006/2007, I expect to publish seven to nine reports. Each of the Office's main areas of focus – education, health, natural resources and finance – will be addressed. The topics to be examined include:

- whether the post-secondary education system is prepared to increase its capacity by 25,000 seats;
- how well the province's healthcare system prevents and controls the spread of infection;
- the environmental sustainability of the province's key agricultural sectors; and
- government's progress in managing significant risks related to its financial information systems.

The other three to five performance reports will focus on cross-government and other priority topics such as aboriginal issues, alternative service delivery, social services, and sustainability.

The Office also produces follow-up reports that provide the public and the Legislative Assembly with an update on the progress made by management in implementing our past recommendations and those of the Select Standing Committee on Public Accounts. Recommendations are designed to improve public sector performance and are an important value-added component of our work.

In 2005/2006, I plan to have issued five follow-up reports:

- *Joint Follow-up of 2001/2002: Report 1 Managing Interface Fire Risks and Firestorm 2003 Provincial Review*
- *Follow-up of the Recommendations of the Select Standing Committee on Public Accounts Contained in Its Fourth Report of the 3rd Session of the 36th Parliament: Earthquake Preparedness – Performance Audit*
- *Alternative Payments to Physicians: A Program in Need of Change – First Follow-Up*
- *A Review of Performance Agreements between the Ministry of Health Services and the Health Authorities – Second Follow-Up*
- *Follow-Up of 2004/2005: Report 3 – Preventing and Managing Diabetes in British Columbia*

In 2006/2007, we expect to publish at least seven follow-up reports.

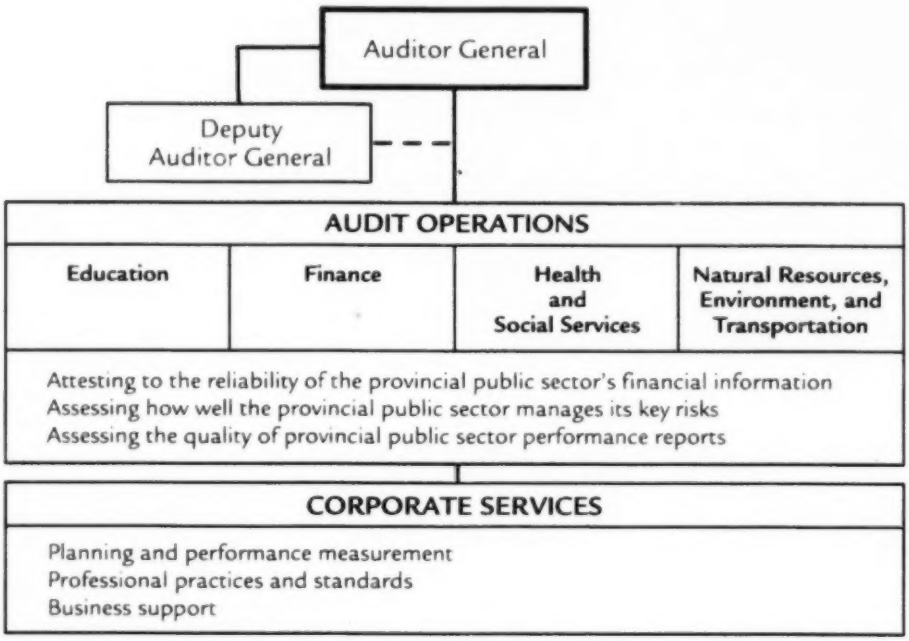
Organizational Structure and Funding

Organizational Structure

The high quality work of my office reflects the strength and concerted efforts of my staff. The Office is currently supported by 88 full-time staff. They include highly trained auditing professionals, many of whom have post-graduate credentials in a range of subject specialties such as accounting, business and public administration, law, social and environmental sciences, and healthcare. The collective experience in auditing the provincial public sector is very strong, as is the collective knowledge of the business of government. Augmenting my staff resources is the expertise we acquire through short-term service contracts.

The Office's audit operations staff is organized into four groups, reflecting the main activities of the public sector: Education; Finance; Health and Social Services; and Natural Resources, Environment and Transportation. Each of these groups is led by an Assistant Auditor General. In addition, the Corporate Services group led by the Deputy Auditor General provides office-wide planning, professional practices, and business supports (such as human resources, financial and administrative services).

Organizational structure in the Office of the Auditor General


Auditor General
Deputy Auditor General
AUDIT OPERATIONS
Education
Finance
Health and Social Services
Natural Resources, Environment, and Transportation
Attesting to the reliability of the provincial public sector's financial information
Assessing how well the provincial public sector manages its key risks
Assessing the quality of provincial public sector performance reports
CORPORATE SERVICES
Planning and performance measurement
Professional practices and standards
Business support

Overview of Expenditures

The Office's budget for the 2005/2006 fiscal year is $9.97 million ($7.67 million in voted appropriation, plus $2.30 million in recoveries). Salaries and benefits account for approximately 72% of my total expenditures, which means $7.21 million by the end of 2005/2006. Professional services – for fees paid to private-sector audit firms, advisors and contractors – are estimated to be $1.02 million, and will account for about 10% of my total costs. The remaining expenditures relate to business expenses, rent, and capital costs such as those for computer system upgrades.

Last year, the Select Standing Committee on Finance and Government Services recommended that the Office's voted appropriation for 2005/2006 increase by $600,000, but the Committee did not recommend any additional increases for 2007/2008 or 2008/2009. These decisions are reviewed each year, when I am asked to present my funding requirements for the upcoming three years.

The table provides an 11-year overview (1992–2005) of the Office's funding, expenditures and staffing levels plus this year's estimates. It indicates that the voted appropriation for my office is virtually the same in actual dollars as it was in 1996. When converted to real dollars to account for inflation alone, the 1996 figure would be $8.95 million at March 31, 2006.

Funding, expenditures and staffing levels in the Office of the Auditor General, 1996–2006

	Actual dollar value for fiscal years ending March 31[1] ($000)										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 approved
Sources of Funding											
Appropriation	7,700	7,392	6,875	6,923	6,923	6,743	7,817	8,364	7,901	7,069	7,670
Unused Appropriation	(26)	(266)	(52)	(298)	(213)	(183)	(586)	(691)	(365)	(82)	–
Recoveries	22	494	1,017	1,398	1,505	1,700	1,788	2,008	2,263	2,293	2,300
Other amounts[2]	–	–	–	–	–	–	212	161	352		–
Funding Used											
Total Expenses	7,696	7,620	7,840	8,023	8,215	8,260	9,231	9,842	10,151	9,280	9,970
Average FTE Usage[3]	94	89	88	86	87	87	88	88	88	87	88

1. Data collected from Office of the Auditor General Annual Reports and estimates.
2. "Other amounts" relate to funding received for early retirement agreements as part of a government-wide workforce adjustment strategy. These costs are offset within our expenditures.
3. The FTE usage figure for 1996 is an estimate based on the funded FTE levels published in the Public Accounts. However, the Office has not historically staffed to the full FTE allotment.

In addition to the effects of inflation, the Office's cost of doing business has increased over the years as a result of greater complexity in both the operations of government and the profession of auditing overall. To manage these increasing costs, the Office has undertaken a number of internal efficiency measures and instituted fee-for-service recoveries. However, some recoveries are "flow through," which means the dollars recovered do not stay in the Office, but are paid out to private-sector auditing firms for their work on assigned projects. For example, in 2005/2006, we expect to pay $400,000 to audit firms from our recoveries.

While I know the Office is producing high quality audits, I am very concerned about how little we are really accomplishing in relation to the size and scope of both government-direct and government-related operations. If we are to provide the necessary assurance that the government's $41 billion of expenditures and related revenues, assets and liabilities are being managed appropriately, then we must begin building the capacity of the Office in a responsible manner.

Even with the resources currently available to us, my work plan for the next three years can address only a limited number and scope of issues. For example, our approach to auditing public-private projects was limited to reviewing a few initiatives at a high level. Many other issues need greater audit attention. For instance, I think we need to do more work in the areas of alternative service delivery, social services and sustainability. The work plan I have proposed provides for audits in these areas.

Funding Request Details

To deliver the work plan outlined, I am requesting increases of $1.3 million ($800,000 and $500,000) in 2006/2007; $600,000 in 2007/2008 and $500,000 in 2008/2009.

Funding
($ Millions)

	Actual		Approved	Proposed		
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Source of Funding						
Appropriation [1]	**7.90**	**7.07**	**7.67**	**8.97**	**9.57**	**10.07**
Less unused appropriation	(0.37)	(0.08)				
Recoveries [2]	2.26	2.29	2.30	1.94	2.00	2.00
Total Funding	9.79	9.28	9.97	10.91	11.57	12.07
Funding Used						
Salaries and benefits [3]	7.24	6.81	7.21	7.74	8.24	8.62
Professional services [4]	1.01	0.90	1.02	1.23	1.32	1.34
Support [5]	0.91	0.96	1.05	1.23	1.28	1.36
Rent and depreciation [6]	0.63	0.61	0.69	0.71	0.73	0.75
Total Funding Used	9.79	9.28	9.97	10.91	11.57	12.07
Capital Spending [7]						
Authorized	0.19	0.20	0.20	0.20	0.20	0.20
Used	0.12	0.16	0.20	0.20	0.20	0.20
Actual/Planned FTEs	88	81	88	93	99	103

1. The voted appropriation funds our costs for attesting to the reliability of the government's Summary Financial Statements, assessing the quality of government service plan reports, and examining how well government manages its key risks.
2. Revenue from recoveries funds our work done on a fee-for-service basis, at market or rates set to recover costs, whichever is lower. This work relates primarily to financial statement audits carried out in accordance with the approved Financial Statement Audit Coverage Plan. If recoveries increase or decrease over the projected years, related expenditures will also change. For example, one change to our recoveries relates to a reduction because we are no longer auditing the British Columbia Investment Management Corporation.
3. No allowance has been made for any potential general wage increases. Costs and associated funding of $352,000 in 2003/2004 related to early retirement agreements are not included in the above figures.
4. Professional services expenses (fees paid to private audit firms, advisors, and contractors) are increasing because we plan to use more contractors and audit specialists in the future to bridge gaps in expertise and to fill peak staffing demands at fiscal year end.
5. Support includes expenses such as travel, training, supplies, IT charges, professional dues and report publication.
6. Rent and depreciation expenses increase gradually in relation to capital expenditures and tenant improvements required to accommodate staff.
7. Capital spending is primarily for ongoing computer systems upgrades and furniture requirements.

The Benefits of Supporting a Strong Audit Office

As elected officials, Members are the stewards of good governance. And the work of the Office of the Auditor General is one of the few means by which Members can obtain independent and high quality information on the performance and accountability of government.

Part of the funding increase I am requesting for 2006/2007 ($800,000) would enable the Office to sustain the capacity to provide:

- examinations that meet the more rigorous quality assurance standards being implemented within the accounting and auditing community;
- continued financial statement coverage over the broader government reporting entity which now includes school districts, universities, colleges and health organizations;
- additional tools and supports (such as training and development) to ensure the Office retains the skills and expertise needed to carry out the work plan; and
- more timely audits in certain risk areas (for example, information technology and social services).

Without this additional funding, I would have no choice but to reduce work in other areas of my office to support at least the first three of these activities. The impacts would be felt hardest in our risk audit work area – an area, as I have previously stated, that already lacks adequate coverage.

The second part of the funding increase I am requesting for 2006/2007 ($500,000) would enable us to modestly expand our work plan to include:

- potential reviews of government's quarterly financial reports; and
- up to two additional risk audits in areas that have not received enough coverage (for example, alternative service delivery and natural resources).

The additional funding requested for 2007/2008 and 2008/2009 would also be used to increase the capacity within our risk audit line of business.

Staff capacity of the Office has not changed since 1996. Without the additional resources I need to begin to increase that capacity, I am not able to deliver a work plan that in my opinion fulfills all of the responsibilities I have as Auditor General of British Columbia.

The Office is small, but the legislated responsibilities are demanding and need to be well supported by Members on behalf of the public. Part of this support is to ensure that we are properly resourced so that we can continue to fulfill our critical role in the accountability process – the role of providing Members and the public with an independent and objective source of information and assurance about government's performance.

Providing the Office with the additional funds I have requested would allow for a relatively small but significant improvement in the way I serve Members in their oversight role.

The Legislative Assembly's holding government to account for how wisely it spends taxpayer dollars, and how effectively it delivers important programs and services to the people of British Columbia, is a demanding set of responsibilities, and one that needs strong support to protect the public interest.

Responding to Standing Committee Requests

The Auditor General Act allows for any standing Committee of the Legislative Assembly to direct me to carry out specific examinations. This gives Members a means of initiating rigorous, independent scrutiny of government performance issues, some of which may be particularly time-sensitive.

When I receive such requests from standing committees, I will investigate and report back to the requesting committee on the nature, scope and costs such an examination would entail. At that time, I will also request from the committee the additional funding I would need to carry out the work.

Recommendations

I ask the Select Standing Committee on Finance and Government Services to:

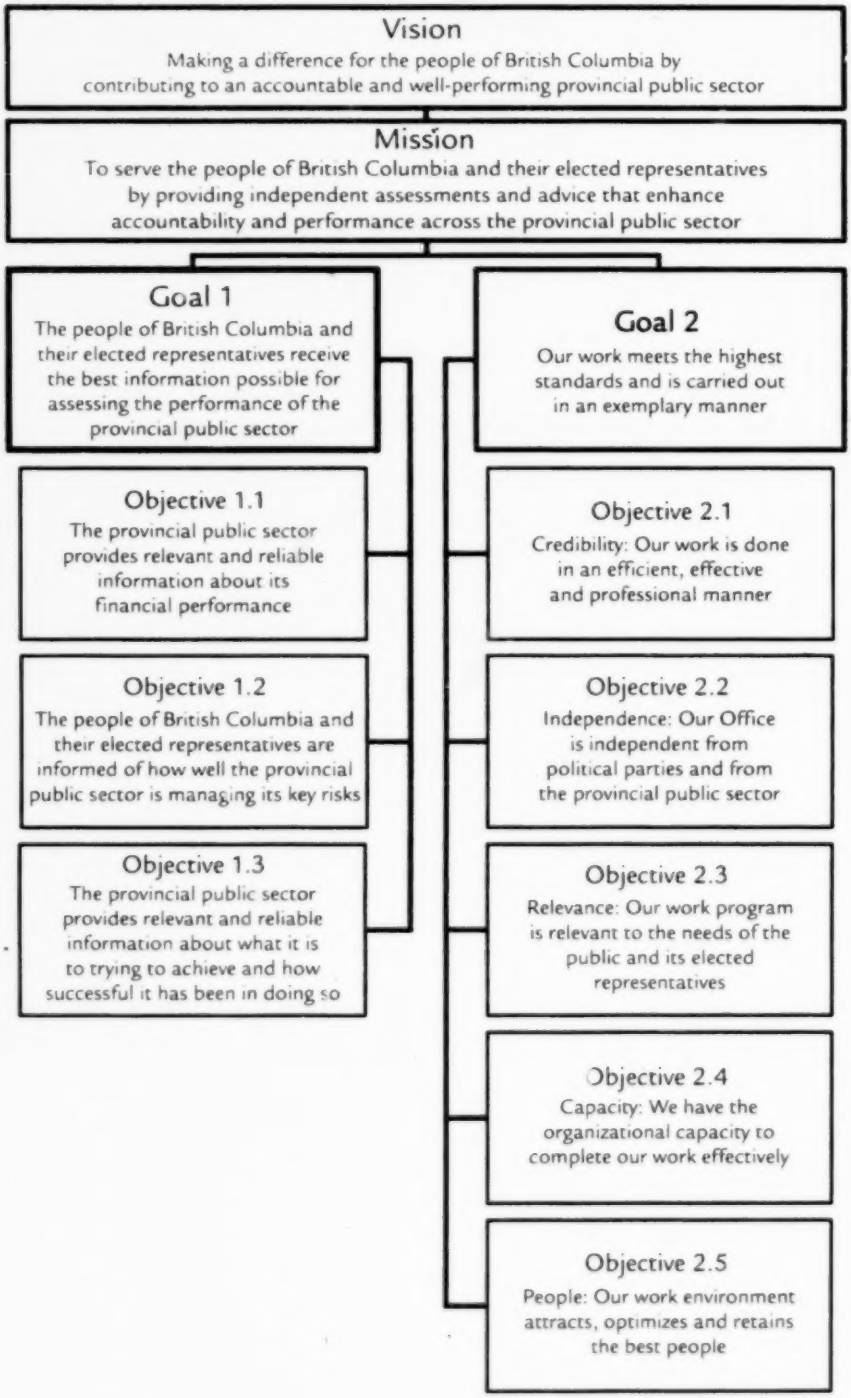
1. **Recommend to the Legislative Assembly an appropriation of $8.97 million to fund the operations of the Office of the Auditor General for the year ending March 31, 2007.**

2. **Approve my plan to continue charging fees, on a cost-recovery or market basis; and ensure the related recoveries – estimated to be $1.94 million – are included in the Estimates of the Office for the year ending March 31, 2007.**

3. **Recommend to the Legislative Assembly an appropriation of $200,000 to fund the capital expenditures of the Office for the year ending March 31, 2007.**

Appendices

Appendix A: Our Goals and Objectives


Vision
Making a difference for the people of British Columbia by contributing to an accountable and well-performing provincial public sector
Mission
To serve the people of British Columbia and their elected representatives by providing independent assessments and advice that enhance accountability and performance across the provincial public sector
Goal 1
The people of British Columbia and their elected representatives receive the best information possible for assessing the performance of the provincial public sector
Objective 1.1
The provincial public sector provides relevant and reliable information about its financial performance
Objective 1.2
The people of British Columbia and their elected representatives are informed of how well the provincial public sector is managing its key risks
Objective 1.3
The provincial public sector provides relevant and reliable information about what it is to trying to achieve and how successful it has been in doing so
Goal 2
Our work meets the highest standards and is carried out in an exemplary manner
Objective 2.1
Credibility: Our work is done in an efficient, effective and professional manner
Objective 2.2
Independence: Our Office is independent from political parties and from the provincial public sector
Objective 2.3
Relevance: Our work program is relevant to the needs of the public and its elected representatives
Objective 2.4
Capacity: We have the organizational capacity to complete our work effectively
Objective 2.5
People: Our work environment attracts, optimizes and retains the best people

Appendix B: Financial Statement Audit Coverage Plan 2006/2007 through 2008/2009: Recommendations to be Approved by the Select Standing Committee on Public Accounts

I ask the Select Standing Committee on Public Accounts to:

1. **approve the changes from the previously approved plan for the fiscal years 2005/2006 through 2007/08 as identified in Appendix A of the report.**
2. **approve the Financial Statement Audit Coverage Plan for the fiscal year 2008/2009 as presented in Appendix B of the report.**
3. **approve the Auditor General appointment term of 10 government organizations and trust funds for a period of more than 5 consecutive fiscal years as identified in the report.**
4. **approve the Auditor General to continue to be the appointed auditor of 1 organization outside of the government reporting entity—the Workers' Compensation Board.**
5. **endorse the Auditor General to continue to administer the auditor appointment process as described in the report.**

Library and Archives Canada Cataloguing in Publication Data

British Columbia. Office of the Auditor General.
Strategic direction and funding proposal. – Feb. 2001–

Annual.

ISSN 1702–0328 = Strategic direction and funding proposal

1. British Columbia. Office of the Auditor General – Periodicals. 2. Administrative agencies – British Columbia – Auditing – Periodicals. 3. Finance, Public – British Columbia – Auditing – Periodicals. 4. Finance, Public – British Columbia – Accounting – Periodicals. I. Title.

HJ13.B7B74 352.4'3'0971105 C2002–800614–3